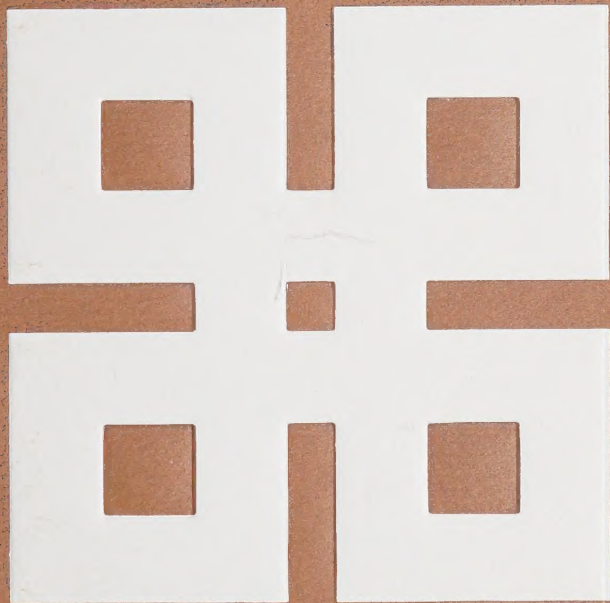



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The Hamilton Group Limited



Annual Report 1977



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HIGHLIGHTS

	1977	1976
Income before extraordinary items	\$ 1,341,902.00	\$ 2,046,168.00
Earnings available for Class A and B shares	\$ 1,341,902.00	\$ 1,992,879.00
Earnings per share		
Income before extraordinary items	\$.60	\$.76
Net income (loss)	\$ (1.03)	\$ 1.72
Dividends paid	\$.20	\$.16
Average number of Class A and B shares outstanding .	2,240,850	2,630,850
Class A and B shares owned in Canada	98.0%	98.0%

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DIRECTORS AND OFFICERS

HEAD OFFICE:

5050 South Service Road, Burlington, Ontario L7L 4Y7

DIRECTORS:

Graham R. Dawson	President, Dawson Construction Ltd.
Lincoln S. Magor	President, Mimik Limited
John F. Schunk	Vice-President, The Hamilton Group Limited
Paul A. Southall	Vice-President, The Hamilton Group Limited
Robert N. Steiner	Retired Partner, A. E. Ames & Company
Alan B. Young	Senior Vice-President, The Hamilton Group Limited
David M. Young	Senior Vice-President, The Hamilton Group Limited
James M. Young	Vice-President, The Hamilton Group Limited
William H. Young	President, The Hamilton Group Limited

OFFICERS:

William H. Young	President
Alan B. Young	Senior Vice-President
David M. Young	Senior Vice-President
John F. Schunk	Vice-President
James M. Young	Vice-President
Paul A. Southall	Vice-President
C. Leslie McCarthy	Secretary

REGISTRAR AND TRANSFER AGENT:

Canada Permanent Trust Company, Toronto, Ontario

AUDITORS:

Peat, Marwick, Mitchell & Co.

ANNUAL REPORT OF DIRECTORS

TO THE SHAREHOLDERS

The fiscal year ended April 30, 1977 saw increasing profit in Citicorp Leasing Canada Limited in its first full year of operation; a profit decline in Charter Credit Corporation; a profit in the European companies after several years of losses; and disruptions in Mexico following the floating of the peso.

Highlights of the year were:

- A profit of \$1,067,200 from the 40% interest in Citicorp Leasing Canada Limited.
- A profit for the Labhire companies in Europe.
- A profit for Hamilton Leasing Limited in Europe.
- A gain of \$408,000 on a forward exchange contract to sell pounds sterling.
- An extraordinary loss of \$3,652,437 arising from the devaluation of the Mexican peso.

FINANCIAL

Income, after allowing for minority interest but before the extraordinary item was \$1,341,902 for the year ended April 30, 1977, or 60c per common share based on 2,240,850 Class A and B shares outstanding compared to \$2,046,168 or 76c per share for the previous year based on 2,630,850 shares. The lesser number of common shares results from the implementation of the agreement with Citicorp Leasing International Inc. half-way through the 1976 fiscal year.

The extraordinary item of \$3,652,437 is the loss suffered by the company on its investment in IEOSA after the Mexican peso was allowed to float freely against other currencies. On

April 30, 1976 the peso was pegged at a rate of 12.5 pesos to one U.S. dollar. On October 31, 1976 the peso was valued at 19.7 pesos to one U.S. dollar when the half-year results were reported for The Hamilton Group. On April 30, 1977, at the fiscal year end, the peso was valued at 22.6 pesos to one U.S. dollar. This loss is explained more fully in the section on IEOSA later in the report.

The loss for the year after the extraordinary item and minority interests was \$2,310,535, or \$1.03 per share.

The year ending April 30, 1977 was the first full fiscal year in which Hamilton Group held a 40% interest in Citicorp Leasing Canada Limited (CLCL). CLCL owns the former leasing subsidiaries of Hamilton Group and continues the Canadian leasing business formerly carried on by Citicorp Leasing International Inc. CLCL had a satisfactory year of progress in a spotty Canadian economy. Hamilton Group's share of CLCL profit for the 12 months ended April 30, 1977 was \$1,067,200. The benefits of the Agreement with Citicorp Leasing International Inc., which became effective on November 1, 1975, are becoming increasingly apparent as the availability of money and its costs are permitting CLCL to expand into areas previously unavailable to Hamilton Group's leasing subsidiaries. This expansion will result in increasing profit in the future.

Charter Credit Corporation, Hamilton Group's subsidiary in mortgage lending, showed a small decline in mortgages receivable at the year end as it continued to be selective in its lending activities, particularly in its major Quebec market. Its profit was adversely affected by two large loans in default, on which action to recover unpaid principal and interest is in progress. No loss is anticipated on these accounts, but in the meantime no income is being booked while costs continue. Otherwise, Charter had a satisfactory year considering the difficult Quebec environment where most of its business is located.

The Labhire companies in Europe, which are wholly owned by The Hamilton Group, continued to improve their financial results and showed a profit of \$39,389 in the year ended April 30, 1977 after reporting losses in the two previous years. This improving trend is continuing into the 1978 fiscal year.

Hamilton Leasing Limited, the leasing company in the United Kingdom in which Hamilton Group holds a 13.2% interest, reported its first profit in its year ended March 31, 1977 after three years of losses. Its profit in the present fiscal year is expected to show a substantial increase. Hamilton Group's investment in Hamilton Leasing made during past years totals £672,000 which was converted to Canadian dollars on Hamilton Group's books at an average rate of £1 to \$2.65 Canadian. A profit of \$408,000 on a sterling hedge was realized by The Hamilton Group during the fiscal year. This gain has been offset against an adjustment to the book value of Hamilton Group's investment in Hamilton Leasing to bring it closer to the present exchange value of the pound to the Canadian dollar rather than taking it into Hamilton Group's profit for the year.

IEOSA, Hamilton Group's 85.9% owned leasing subsidiary in Mexico, had a very difficult time, as did most companies in Mexico, following the sudden decision by the Mexican Government on August 31, 1976 to allow the peso to float freely after being pegged to the U.S. dollar for over twenty years. The value of the peso fell immediately and dramatically. Much of the commerce in Mexico is based on U.S. dollars and obligations payable in the peso equivalent of dollars immediately required almost double the number of pesos. This caused chaotic conditions. Collections became difficult. Costs

escalated. Business came to a standstill. This situation was compounded by the uncertainties attendant on the end of the administration of President Echeverria as it completed its six-year term. The administration of President Lopez Portillo has taken strong measures since taking office on December 6, 1976 to hold inflation in check and to restore stability to the economy. Confidence of the business community is returning and IEOSA will be able to operate profitably in this improved environment. However, it will take time to overcome the negative effect that the peso devaluation has had on IEOSA's financial position.

DIRECTORS

Mr. R. N. Steiner, who became a Director of The Hamilton Group Limited in 1962, died on July 2, 1977. His wisdom and foresight, his sense of humour, his unfailing cheerfulness and encouragement in times of adversity, made major contributions to the deliberations of the Board and to the success of the company. He will be greatly missed.

Mr. J. M. Young became a Director of the company in 1950. Unfortunately, ill-health has prevented him from attending meetings of the Board. During his twenty-seven years as a Director, he was an active participant in major decisions which saw the company change from a small textile concern to its present form and stature. He will become an honorary director of the company and as such he will continue to take an active interest in its affairs and to make his experience and advice available to the directors.

CANADA

Charter Credit Corporation

Hamilton Group's wholly owned subsidiary continued to mark time during the last fiscal year due to lack of new funds and a very weak mortgage market. There was a slight decline in mortgages receivable from \$14,771,874 to \$14,714,357.

The lack of growth in the mortgage market, increased costs, and some problems in collections led to a drop in income before income taxes from \$303,000 in 1976 to \$111,000 in 1977. Several bankruptcies and defaults resulted in loans on which no interest was paid or accrued and although Charter is well secured in these cases, it will be some time before funds will be realized from the securities and reinvested in interest-providing loans. Also, during the year ended April 30, 1977, the average margin between loans and borrowing costs was narrowed compared to 1976.

Although collections and defaults were a problem, actual bad debts written off were 0.35% of average mortgages receivable, a decline from 0.51% in 1976.

Charter's business is approximately 80% in the Province of Quebec. The adverse economic climate and the questionable political environment have contributed to Charter's lack of growth. However, Charter is well managed and as economic conditions improve, Charter will be able to expand its business in Ontario and the Maritimes, as well as improve its share of the good business available in Quebec.

Cancord Limited

This subsidiary had a profitable year on its sales of twine, ropes, and cordage, despite a difficult year for manufacturers in Canada.

Canaplan Leasing Limited

The contribution made to Hamilton Group from its 50% owned automotive leasing company improved substantially during the twelve months

ended April 30, 1977 compared to 1976.

However, the overall return on invested funds of 7.1% for the period requires further improvement. During the 12 month period, leases receivable increased 17.7% to \$13.1 million from \$11.1 million, a very acceptable level of growth. However, the growth was offset in part by a 6.2% increase in operating costs and a 22.5% increase in the cost of borrowed funds. It is hoped during the present fiscal year to resolve the problem of a relatively low return on funds invested in Canaplan.

International Mercantile Factors Limited (IMF)

For the twelve-month period ended April 30, 1977, IMF showed a marginal increase in business activity and the contribution to Hamilton Group's earnings of 50% of the profit was up 3.5% to \$48,354. The slow growth and difficulty with collections and defaults reflect the economic situation in Quebec where IMF's business is concentrated. On the other hand, Hamilton Group's share of profits for the period represent a 15.7% return on its original equity interest. There were no additional subordinate debt advances to IMF during the year, and they remain at \$550,000. Hamilton Group's book value of its investment in IMF as at April 30, 1977 was \$462,941 represented by \$300,000 in equity and \$162,941 as its share of retained earnings.

Citicorp Leasing Canada Limited (CLCL)

December 20, 1976 marked the completion of the first full fiscal year of CLCL which is owned 40% by Hamilton Group and accounted for by it on an equity basis. A combined five year summary of the leasing operations now operated by CLCL is included on Page 8 for general comparative purposes. However, this summary does reflect different fiscal year ends.

The summary shows CLCL had an excellent first year. Leases receivable added were \$78.4 million, which was 4% higher than the previous record for the Canadian Leasing operations set

in the 12 months ended April 30, 1974. Assets grew to \$122 million from \$105 million a year earlier, an increase of almost 16%. Net income after provision for income taxes was \$2.5 million.

These results were gratifying in view of the less than booming economic conditions and the fact that leasing operations had been restricted due to lack of funds during most of the 12 month period ended December 20, 1975. This success was due in part to the effect of Citicorp's 60% ownership which provided sufficient new funds to finance this growth. These funds were at a lower average cost than could be attained by Hamilton Group. Further, maturity of debt has been extended to match more closely the cash due from leases receivable. All in all, the reasons Hamilton Group sold 60% of its Canadian leasing operations to Citicorp are proving justified.

During the year, administrative, accounting and credit functions were adapted wherever possible to conform to Citicorp procedures. The most significant changes were to automatically write off, or fully reserve, any accounts more than 120 days in arrears, whether or not judged fully or partially collectable, and the establishment in health services leasing of an anticipated residual equal to 5% of the original cost of equipment. The change in write-off policy

increased net losses due to bad debts to an all time high, but will result in higher recoveries of accounts previously written off and lower net losses in the current fiscal year. The establishment of residual values for health services leasing standardizes accounting practices within CLCL and is based on a 6% historical realized residual value. The net result of these and other minor adjustments in CLCL profit were largely off-setting.

The consolidated balance sheet for CLCL as at December 20, 1976 with comparative figures for 1975 and consolidated statement of earnings for the year ended December 20, 1976 are shown on Pages .7. and .8. No comparative figures are given for 1975 on the earnings statement, as the 1975 period was for only two months.

The continued growth of CLCL will depend in part on the performance of the Canadian economy. As there are no signs at present of any major growth cycle developing in Canada, CLCL growth will be dependent upon increasing its share of the leasing market. Thus, the outlook is for somewhat slower growth at very competitive rates. However, it is anticipated that 1977 will prove to be a very satisfactory year for CLCL.

CITICORP LEASING CANADA LIMITED

CONSOLIDATED BALANCE SHEET

December 20, 1976 with comparative figures for 1975

ASSETS

	(Dollar amounts expressed in \$000's)	
	1976	1975
Cash	\$ 126	\$ 1,748
Leases receivable	139,173	119,627
Allowance for losses	(1,778)	(2,024)
Unearned income	(33,888)	(27,719)
Estimated residual values	8,344	5,854
Equipment purchased for lease commitments	4,691	2,414
Accounts receivable	179	185
Fixed assets	338	311
Excess of cost over book value	4,165	4,271
Other assets	286	391
	<u>\$ 121,636</u>	<u>\$ 105,058</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Short term unsecured debt	\$ 47,494	\$ 64,257
Accounts payable and accrued charges	4,185	3,690
Income and other taxes payable	1,936	2,710
Long term secured debt	354	395
Long term unsecured debt	47,789	13,188
Subordinate funded debt	7,564	7,909
Deferred income taxes	733	802
Shareholders' equity:		
Preferred shares	2,000	2,000
Common shares	10,000	10,000
Retained earnings	1,581	107
Total shareholders' equity	<u>13,581</u>	<u>12,107</u>
	<u>\$ 121,636</u>	<u>\$ 105,058</u>

CITICORP LEASING CANADA LIMITED
CONSOLIDATED STATEMENT OF EARNINGS

Year ended December 20, 1976

		(Dollar amounts expressed in \$000's)
Earned and other income		\$ 22,974
Cost of borrowed funds		9,735
Provision for losses		2,468
Operating expenses		6,322
		<u>18,525</u>
Earnings before income taxes		4,449
Income taxes:		
Current		2,387
Deferred		(412)
		<u>1,975</u>
Net earnings		<u><u>\$ 2,474</u></u>

CANADIAN LEASING
COMBINED FIVE-YEAR SUMMARY

(Dollar amounts expressed in \$000's)

	Dec. 20 1976	April 30 1976	1975	1974	1973
BALANCE SHEET					
Leases receivable	\$139,173	123,176	126,564	115,008	77,140
Allowance for losses	\$ 1,778	2,016	1,992	1,803	1,219
Allowance for losses to leases receivable	% 1.3	1.6	1.6	1.6	1.6
Unearned income	\$ 33,888	29,159	30,898	26,706	17,731
Unearned income to leases receivable	% 24.3	23.7	24.4	23.2	23.0
Estimated residual value of equipment	\$ 8,344	5,850	5,870	4,896	3,154
Total assets	\$121,636	106,900	102,174	100,869	65,523
OPERATIONS (12 Months Ended)					
Lease income	\$ 51,693	48,981	46,253	32,936	24,220
Earned income	\$ 22,974	18,967	18,464	13,339	9,812
Provision for losses	\$ 2,468	878	1,406	1,222	619
Leases receivable added	\$ 78,373	49,357	65,135	75,443	48,271
Original cost of leased equipment	\$196,280	178,656	168,378	146,033	98,620
Net losses due to bad debts	\$ 2,712	851	1,217	637	475
Net losses to average leases receivable	% 2.10	0.68	1.01	0.66	0.71
Number of employees at end of period	232	253	226	242	212
Number of leases	90,085	90,146	89,964	82,100	63,200
Average original cost of equipment per lease	\$ 2.18	1.98	1.87	1.78	1.56

INTERNATIONAL

MEXICO

Impulsora de Equipos de Oficina (IEOSA)

The changes in value of the Mexican peso from 12.5 pesos to one U.S. dollar at April 30, 1976 to 22.6 pesos to one U.S. dollar had a major impact on the financial results of IEOSA for the year ended April 30, 1977 and on the 85.9% shareholding which is consolidated in the figures for The Hamilton Group.

The liability of IEOSA to pay its debt of 11 million U.S. dollars increased by 111,100,000 pesos. This amounted to \$2,247,749 Canadian, after allowing for future tax recovery, as Hamilton Group's share on consolidation. In addition, Hamilton Group's investment in the equity of IEOSA was worth \$1,404,688 Canadian less than before when valued at the new rate of exchange. Combined, these total \$3,652,437, the amount of the extraordinary item charged against Hamilton Group's net income for the year.

IEOSA has lease and other receivables payable in U.S. dollars. At the new rate of exchange these increased in value by 67,186,496 pesos. However, as this increase will only be realized as collections are made in future, it is shown as unearned income and so had no effect on net income for the year. The increase will be recognized as income over the next few years as it is received.

The net income of IEOSA, before income or other taxes and exchange loss, was 5.8 million pesos compared to 6.9 million pesos a year earlier. The reduction in income was caused by increased borrowing and other costs resulting from the devaluation of the peso. By comparison it is estimated that without devaluation, net income would have been 11.1 million pesos.

Collections became a major problem after the floating of the peso. This was especially true for leases payable in the peso equivalent of U.S. dollars. Most of these contracts were extended to permit payment in pesos to remain within

the lessees cash flow. By the year end collections were slowly returning to normal based on the extended terms.

It was believed prudent to increase the allowance for bad debts in IEOSA from 3.9 million pesos at April 30, 1976 to 6.0 million pesos, or approximately 2.2% of leases and accounts receivable, at April 30, 1977. Actual bad debt losses, after recoveries, were 1.6 million pesos, compared with .9 million pesos in 1976. The 1977 net loss due to bad debts is 0.6% of leases and accounts receivable which is 27% of the 2.2% allowance.

IEOSA is now re-investing its cash flow in U.S. dollar pay leases and is stressing collection performance and cost control to maximize its profit. The liquidity shortage in Mexico has created a climate for leasing which permits IEOSA to take new business from good credits at attractive yields.

Negotiations to sell control of IEOSA, reported last year, were terminated after the floating of the peso made it impractical to obtain the necessary financing from Mexican sources. IEOSA is a well-run company in a country short of capital but with excellent prospects for sound economic growth. Large oil and gas discoveries permit increasing petroleum exports to narrow Mexico's foreign exchange deficit and improve its credit rating. The new administration of President Lopez Portillo is taking strong measures to control inflation and to restore stability to the economy. Within this improving environment, the outlook for IEOSA is encouraging. It will become an attractive investment for a Mexican financial group when financing within Mexico is no longer a major problem.

EUROPE

Labhire Group

During the year ended April 30, 1977, the Labhire Group showed a consolidated profit of \$39,389, continuing the improving trend from losses of \$562,000 in 1975 and \$181,124 last year.

INTERNATIONAL

This consolidated profit came from very good results in the United Kingdom (U.K.) operation of Labhire that were more than sufficient to cover continuing losses in France. Turnover in the U.K. was up 41% and pre-tax profits 122%, but in France, a 43% increase in turnover produced only a slightly lower loss than the year before.

Profitability in the rental business is mainly a function of the degree of utilization of the rental inventory, and to a lesser degree to the age of the equipment. Labhire U.K. from October, 1976 onwards had very good equipment utilization, and was able to rent out at current rates equipment that it had substantially depreciated. Labhire France's utilization rates improved over 1976, but were still far below those of the U.K., and its financial costs are still relatively much higher as most of its equipment is new. In addition, renting electronic test equipment is a new business in France, and Labhire is alone in trying to open up the market, and thus there is a big sales education job to be done.

It is doubtful if Labhire France will be profitable this year, though its results are expected to be better than last year. However, fiscal year 1978 has started very well for Labhire U.K., and profits are expected to be higher again this year. On a consolidated basis, therefore, the Labhire Group should contribute more to Hamilton Group profits in this current year.

Labhire France should prove to be a very profitable part of Hamilton Group's operations in the future. Its progress to date is very reminiscent of Labhire U.K. in the early 1970's, and the market in France for its services is about the same size as the U.K. market. In the U.K., Labhire shares its market with a larger competitor, but in France it is alone, and its present losses in France are really an investment in securing market position which should be very profitable in the future.

Hamilton Leasing Limited

Hamilton Leasing Limited made its first profit in four years in its fiscal year ended March 31, 1977 — a modest £364,562 pre-tax. However, all the retrenchment and clean-up programs referred to in previous annual reports were substantially completed during the year, and Hamilton Leasing is now operating on an efficient basis with its credit problems well under control.

Hamilton Leasing still suffers from a portfolio of low rate 5 year leases taken on in 1972 and 1973, but these are now running off fairly rapidly and being replaced with more profitable business. It also still uses a lot of high cost money taken for fixed periods at fixed rates in 1974 when the company was refinanced, but these loans are also running off and being replaced by cheaper funds. Thus, the over-all spread between lease rates received and interest paid on loans continues to improve every month. Hamilton Leasing is now operating on a very profitable basis, and its profitability is expected to continue to improve.

Hamilton Group did not exercise its option referred to in last years annual report, to increase its shareholding in Hamilton Leasing to 26%, and thus its shareholding remains at 672,000 shares, or 13.2%. In 1975 Hamilton Group bought a forward hedge on the pound, to partially protect its investment in Hamilton Leasing, and the gain of \$408,000 which was realized on the exercise of this forward exchange contract has been offset against an adjustment to this investment for the decline in the British pound to bring it to \$1,371,000.

It is unlikely that Hamilton Leasing will pay dividends for some time, as it has a deficit position. With 13.2% shareholding only, Hamilton Group cannot consolidate a profit from its share of the current earnings of Hamilton Leasing. Thus, this investment is now not a very satisfactory use of Hamilton Group's funds, and it is probable that this shareholding will be sold when a profitable price can be obtained.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Hamilton Group Limited as at April 30, 1977 and the consolidated statements of income, retained earnings, contributed surplus and changes in financial position for the year then ended. Our examination of the financial statements of The Hamilton Group Limited and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the Mexican subsidiaries. The assets of these subsidiaries represent approximately 27% of the consolidated assets.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at April 30, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Hamilton, Canada
July 27, 1977

CONSOLIDATED FINANCIAL STATEMENTS

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

April 30, 1977

with comparative figures for 1976

	ASSETS	
	1977	1976
Cash and short term deposits	\$ 2,266,817	\$ 2,357,208
Leases receivable, less allowance for losses, \$204,084 (1976, \$514,628) (note 2)	10,000,108	14,750,725
Mortgages receivable, less allowance for losses \$216,261 (1976, \$217,695)	14,967,111	15,137,828
Unearned income	(4,742,088)	(3,529,007)
Estimated residual value of property and equipment	732,635	1,106,475
Equipment purchased for lease commitments, at cost	167,370	117,540
Notes and accounts receivable	4,080,081	2,479,044
Real estate held for sale (note 3)	798,260	809,621
Investments and advances (note 4)	8,623,912	9,479,100
Property, plant, equipment and improvements (note 5)	3,663,416	3,617,871
Deferred income taxes	3,499,270	1,380,560
Excess of cost over net book value of subsidiaries at dates of acquisition less amounts written off	1,211,997	1,274,289
Other assets	895,611	896,004
	<u>\$ 46,164,500</u>	<u>\$ 49,877,258</u>

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

April 30, 1977

with comparative figures for 1976

LIABILITIES AND SHAREHOLDERS' EQUITY

	1977	1976
Short-term secured debt (note 6)	\$ 29,313,494	\$ 28,048,079
Notes and accounts payable and accrued charges	1,032,450	1,863,028
Income and other taxes payable	4,573	463,349
Long-term secured debt (note 7)	991,000	1,010,000
Subordinated funded debt (note 8)	376,000	648,500
Mortgage payable (note 9)	1,456,311	1,469,900
Minority interests in subsidiary companies including interest in preferred shares of \$349,650 (1976, \$437,150)	404,104	1,062,670
Shareholders' equity:		
Capital stock (note 10):		
Preferred shares	—	—
Shares without par value	3,901,337	3,901,337
	<u>3,901,337</u>	<u>3,901,337</u>
Retained earnings	8,442,370	11,201,509
Contributed surplus	242,861	208,886
	<u>12,586,568</u>	<u>15,311,732</u>
Total shareholders' equity	12,586,568	15,311,732
Commitments and contingent liability (note 11)		
	<u>\$ 46,164,500</u>	<u>\$ 49,877,258</u>

On behalf of the Board:

A. B. YOUNG, Director

W. H. YOUNG, Director

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF RETAINED EARNINGS
Year ended April 30, 1977
with comparative figures for 1976

	1977	1976
Amount at beginning of year	\$ 11,201,509	7,078,630
Net income (loss)	(2,310,535)	4,581,793
	<u>8,890,974</u>	<u>11,660,423</u>
Deduct:		
Dividends:		
First preferred shares, Series A	—	4,539
Second preferred shares	—	48,750
Common shares	—	181,251
Class A shares	436,065	221,045
Class B shares	10,289	2,579
	<u>446,354</u>	<u>458,164</u>
Taxes on undistributed income (note 10 (b))	2,250	750
	<u>448,604</u>	<u>458,914</u>
Amount at end of year	<u><u>\$ 8,442,370</u></u>	<u><u>\$ 11,201,509</u></u>

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS
Year ended April 30, 1977
with comparative figures for 1976

	1977	1976
Amount at beginning of year	\$ 208,886	\$ 200,462
Discount on redemption of preferred shares of the company and a subsidiary	33,975	8,424
Amount at end of year	<u><u>\$ 242,861</u></u>	<u><u>\$ 208,886</u></u>

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

Year ended April 30, 1977

with comparative figures for 1976

	1977	1976
Gross income (note 12)	\$ 11,311,111	\$ 17,883,657
Income before the following	6,922,591	13,674,940
Recovery of cost of leased property	2,778,016	4,192,478
Cost of borrowed money including \$232,507 (1976, \$1,915,567) on indebtedness initially incurred for a term exceeding one year	3,268,781	8,009,066
Depreciation and amortization	415,808	372,952
	6,462,605	12,574,496
Operating income	459,986	1,100,444
Investments:		
Income	1,244,570	1,633,256
Loss on revaluation (net)	(29,846)	—
Amortization of goodwill	(62,292)	(63,631)
	1,152,432	1,569,625
Profit on sale of real estate	—	99,945
Income before income taxes, minority interests and extraordinary item	1,612,418	2,770,014
Income taxes (note 13):		
Current	575,000	1,176,000
Deferred	(343,000)	(514,000)
	232,000	662,000
Income before minority interests and extraordinary items	1,380,418	2,108,014
Minority interests	(38,516)	(61,846)
Extraordinary item (note 14)	(3,652,437)	2,535,625
Net income (loss)	\$ (2,310,535)	4,581,793
Earnings (loss) per share:		
Income before extraordinary items	\$.60	.76
Net income (loss)	(1.03)	1.72

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Year ended April 30, 1977
with comparative figures for 1976

Funds provided:	1977	1976
Income before minority interest and extraordinary item	\$ 1,380,418	\$ 2,108,014
Add (deduct) items not affecting funds:		
Provision for losses	245,137	335,536
Depreciation and amortization	478,100	436,583
Excess of earnings of non-consolidated subsidiaries over dividends received	(137,394)	(319,378)
Revaluation of investments	437,846	—
Deferred income taxes	(343,000)	(514,000)
	<hr/>	<hr/>
Funds provided from operations	2,061,107	2,046,755
Funds provided from leases receivable:		
Decrease in leases receivable	5,061,161	9,634,150
Decrease (increase) in residual values	373,840	(68,573)
Net credit losses	(483,841)	(86,932)
Increase (decrease) in unearned income	1,213,081	(3,509,103)
	<hr/>	<hr/>
	6,164,241	5,969,542
Increase in short-term secured debt	1,265,415	15,844,856
Funds provided from sale of subsidiaries	—	10,475,181
Other	635,969	827,464
Decrease in cash and deposits	90,391	2,389,358
	<hr/>	<hr/>
	\$ 10,217,123	\$ 37,553,156
	<hr/>	<hr/>
Funds used:		
Increase (decrease) in equipment purchased for lease commitments	\$ 49,830	\$ (454,771)
Increase in notes and accounts receivable	1,601,037	419,941
Investment in other companies, net	—	5,217,928
Additions to (disposals of) fixed assets, net	449,992	(46,519)
Decrease in long-term debt	305,089	26,113,617
Redemption of preferred shares	53,525	4,083,493
Dividends declared	446,354	458,164
Reduction in net assets of a foreign subsidiary due to currency devaluation	6,015,433	—
Other	1,295,863	1,761,303
	<hr/>	<hr/>
	\$ 10,217,123	\$ 37,553,156
	<hr/>	<hr/>

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1977

1. Summary of significant accounting policies:

(a) Principles of consolidation:

The consolidated financial statements include the accounts of the company and all subsidiaries. All material inter-company balances and transactions have been eliminated. Certain accounts of the previous year have been reclassified to conform with the current year's presentation.

(b) Currency translation:

Assets and liabilities arising in foreign currencies due within one year have been translated at the rates of exchange in effect at the year end. Other foreign currency items have been translated at the rates in effect when the transactions occurred.

Gains on translation of foreign subsidiaries' accounts for consolidation purposes are deferred and losses are reflected in income.

(c) Leases receivable and unearned income:

The leasing subsidiary follows the practice of recording gross rentals to be received over the periods of the leases and estimated residual values on leases written (estimated as a percentage of the original equipment cost) as assets when leases are executed. The excess of such amounts over the cost of the related equipment is recorded as unearned income. A portion of the unearned income is credited to current income at the commencement of the lease periods in an amount estimated to offset lease acquisition costs. The balance of unearned income is credited to current income over the terms of the leases

in diminishing periodic amounts on the sum of the digits method based on payments deemed to be made in accordance with the lessees' contractual obligations. The balance of the payments deemed to be made is recorded as recovery of cost of leased equipment.

(d) Mortgages receivable and interest income:

The mortgage financing subsidiaries generally follow the practice of recording as an asset the principal portion of the mortgage payments to be received over the term of the mortgage when the funds are advanced.

Interest is taken into income according to standard mortgage amortization tables. Discounts on mortgages and unrealized profits on sales of repossessed properties are taken into income in equal monthly amounts over the remaining life of the mortgages.

(e) Income taxes:

The company follows the tax allocation method of accounting for income taxes which makes full provision for such taxes on all reported income.

(f) Depreciation and amortization:

(i) Generally, depreciation is provided on plant and equipment, and amortization on leasehold improvements on a straight-line basis at annual rates which are designed to write off the assets over their estimated useful life.

(ii) Excess of cost over net book value of subsidiaries at dates of acquisition is being amortized over a twenty year period.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1977

2. The lease contracts provide for equal periodic payments to be received over their terms. The amount of rentals to be received over the next five years is summarized below:

Within:	1977	1976
One year	\$ 5,898,758	\$ 6,701,137
Two years	2,856,632	4,784,697
Three years	1,016,470	2,598,135
Four years	371,619	875,150
Five years	60,713	306,234
	<u>\$10,204,192</u>	<u>\$15,265,353</u>

3. Real estate held for sale:

	1977	1976
At cost	\$ 101,760	\$ 98,579
As valued by the Board of Directors at April 30, 1975	739,164	739,164
	<u>840,924</u>	<u>837,743</u>
Less accumulated depreciation	42,664	28,122
	<u>\$ 798,260</u>	<u>\$ 809,621</u>

Depreciation is being provided on certain facilities used by the company and subsidiaries, pending the sale of the property.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1977

4. Investments and advances:	1977	1976
Investment in shares:		
Citicorp Leasing Canada Limited	\$ 4,699,513	\$ 4,634,313
Hamilton Leasing Limited	1,371,550	1,779,550
Other investments:		
At equity	1,076,703	1,030,442
At cost	—	29,846
At market value	811,609	795,506
	<u>7,959,375</u>	<u>8,269,657</u>
Advances to affiliated companies	664,537	1,209,443
	<u>\$ 8,623,912</u>	<u>\$ 9,479,100</u>

The investment in Citicorp Leasing Canada Limited is valued at the company's share of the net tangible assets therein. The company's share of the equity of Citicorp Leasing Canada Limited amounts to \$6,330,000.

The investment in Hamilton Leasing Limited is valued at cost plus value of stock dividends received less an adjustment for the decline in value resulting from the decline in the exchange rate of the British pound. The adjustment for the decline in the British pound has been entirely offset against a gain realized on the exercise of a forward exchange contract in pounds. The company's share of the equity of Hamilton Leasing Limited amounts to £382,300 equivalent to approximately \$688,500 at the exchange rate in effect at April 30, 1977. A possible exchange loss of approximately \$90,000 and a decline in value of the equity of Hamilton Leasing Limited of approximately \$590,000 (1977, \$680,000) have not been provided for in the accounts as, in the opinion of management, the decline in value is considered to be of a temporary nature.

5. Property, plant, equipment and improvements, at cost less accumulated depreciation and amortization:	1977	1976
Buildings	\$ 2,266,412	\$ 2,271,865
Equipment and improvements	339,231	338,074
Automobiles	174,860	230,348
Rental equipment	1,861,545	1,471,316
	<u>4,642,048</u>	<u>4,311,603</u>
Less accumulated depreciation and amortization	1,227,156	942,256
	<u>3,414,892</u>	<u>3,369,347</u>
Land	248,524	248,524
	<u>\$ 3,663,416</u>	<u>\$ 3,617,871</u>

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1977

6. Short-term secured debt:

The company has entered into an agreement with its bankers whereby its shares in its principal investments are pledged as collateral.

7. Long-term secured debt (payable by Charter Credit Corporation):

6¾% senior notes, Series A, maturing April 15, 1984.

The senior notes rank prior to all other indebtedness of the subsidiary company and are secured by a first floating charge on all assets of the subsidiary.

The sinking fund requirements, net of purchases of par value of \$9,000 made in advance of sinking fund requirements, are \$91,000 in 1978 and \$100,000 in each of the years 1979 through 1983.

8. Subordinated funded debt:

The Hamilton Group Limited:

9% Subordinated note payable
maturing on August 1, 1977

1977	1976
\$ 250,000	\$ 500,000

Charter Credit Corporation:

7% Debentures maturing August 1, 1978

126,000	148,500
<u>\$ 376,000</u>	<u>\$ 648,500</u>

The 7% Debentures have a mandatory redemption requirement of \$22,500 in 1977.

9. Mortgage payable:

First mortgage, due July 1, 1998, with interest at 8¾%, payable in equal monthly instalments of \$11,763 including principal and interest.

10. Capital stock:

- (a) 5% non-cumulative preferred shares of the par value of \$10 each, redeemable at par.
Authorized 440,000 shares, issued nil (1976, nil).

Convertible shares without par value. Class A, authorized 7,500,000 shares, issued 2,165,925 shares (1976, 2,193,975); Class B, authorized 7,500,000 shares, issued 74,925 shares (1976, 46,875).

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1977

10. Capital stock (continued):

- (b) The Class A and Class B shares are fully voting and are convertible into each other on a one-for-one basis. The directors may, in declaring a dividend on the Class B shares, specify that the dividend shall be paid out of tax-paid undistributed surplus on hand or out of 1971 capital surplus on hand. In either case the company pays a tax of 15% and the shareholder receives 85% of any dividend so declared which is not subject to any further income tax in his hands, though the valuation base for capital gains tax purposes will be decreased by the amount received by the Class B shareholder. At April 30, 1977 retained earnings included tax paid undistributed surplus of \$4,132 (1976, \$1,671).
- (c) The company shall not issue any Class A shares or Class B shares if after such issue the number of authorized but unissued Class A shares or Class B shares would be insufficient to satisfy the conversion privileges above in the event that all shares of each other class which are eligible for conversion are actually converted in Class A shares or Class B shares in accordance with the conversion provisions. During the year the holders of 28,050 Class A shares converted such shares into a similar number of Class B shares.

11. Commitment and contingent liability:

Forward exchange contracts to purchase \$2,400,000 U.S. (1976, \$1,800,000) maturing on March 3, 1978.

A foreign country has claimed taxes on certain profits made by the company in prior years. The company has claimed offsetting losses which, in its opinion, more than offset such claim.

12. Gross income arises from:

	1977	1976
Lease rentals and related income	\$ 7,351,190	\$ 8,824,879
Interest on advances to affiliated companies	59,891	5,300,632
Interest from mortgages and agreements of sale	2,233,772	2,275,235
Sales	1,666,258	1,482,911
	<u>\$ 11,311,111</u>	<u>\$ 17,883,657</u>

13. Income taxes:

Income taxes payable by the company and its subsidiaries are reduced as a result of non-taxable items which are included in the determination of income.

THE HAMILTON GROUP LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1977

14. Extraordinary item:	1977	1976
Loss on devaluation of Mexican peso less applicable income taxes of \$2,248,000	\$ 3,652,437	—
Gain on sale of former subsidiaries less applicable income taxes of \$39,000	—	2,390,625
Income tax credits arising from prior years losses	—	145,000
	<u>\$ 3,652,437</u>	<u>\$ 2,535,625</u>

15. Remuneration of officers and directors:

The aggregate remuneration as directors of the company's nine directors amounted to \$11,200 (1976, \$10,200); the aggregate remuneration as officers of the company's seven officers amounted to \$313,400 (1976, \$299,000); during 1977 six officers were also directors.

16. Anti-Inflation Act:

The company's ability to increase dividends is subject to the restrictions imposed by the Anti-Inflation Act and Regulations.

BANKERS

CANADA

Bank Canadian National
The Bank of Nova Scotia
Canadian Imperial Bank of Commerce
The Mercantile Bank of Canada

UNITED STATES OF AMERICA

Bank of Virginia International
Chemical Bank
Crocker National Bank
The First National Bank of Chicago
Wells Fargo Bank

CONSOLIDATED CHANGES IN FINANCIAL POSITION

SIX MONTHS ENDED OCTOBER 31, 1977

AR01

Funds provided:

	<u>1977</u>	<u>1976</u>
Operations	\$ 1,128,953	\$ 83,597
Increase in short-term secured debt	415,097	1,516,240
Other	<u>1,551,518</u>	<u>(1,067,979)</u>

	<u>\$ 3,095,568</u>	<u>\$ 531,858</u>
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Funds used:

Increase (decrease) in notes and accounts receivable	\$ 184,281	\$ (149,993)
Increase (decrease) of investment in leases receivable	1,415,532	(2,353,111)
Increase of investment in mortgages receivable	569,164	416,354
Additions to (disposals of) fixed assets - net	342,268	(10,443)
Decrease in long-term debt	312,750	285,147
Dividends declared	222,946	223,378
Other	<u>48,627</u>	<u>2,120,526</u>
	<u>\$ 3,095,568</u>	<u>\$ 531,858</u>

To the Shareholders:

Net income for the six months ended October 31, 1977 was \$1,008,815, or 45 cents per share compared to \$690,094, or 31 cents per share for the first six months of 1976. Net income for the second quarter of 1977 was \$510,373, or 23 cents per share compared to \$247,898, or 11 cents per share in the second quarter of last year. The figures for 1976 do not include the extraordinary loss arising from the devaluation of the Mexican peso after it was allowed to float freely on August 31, 1976.

It is expected that the net income will continue at approximately the same level for the remainder of the fiscal year.

W.H. Young
President

THE HAMILTON GROUP LIMITED
CONSOLIDATED STATEMENT OF INCOME
SIX MONTHS ENDED OCTOBER 31, 1977

(with comparative figures for 1976)

	3 Months Ended October 31		6 Months Ended October 31	
	1977	1976	1977	1976
Gross income	\$ 3,270,466	\$ 1,697,938	\$ 6,762,928	\$ 4,912,881
Income before the following	1,257,679	716,574	2,422,968	1,544,921
Cost of borrowed funds	828,542	693,431	1,564,424	1,493,074
Operating income	429,137	23,143	858,544	51,847
Investment income	300,236	232,755	577,271	699,247
Income before income taxes	729,373	255,898	1,435,815	751,094
Income taxes	219,000	8,000	427,000	61,000
Income before extraordinary item	510,373	247,898	1,008,815	690,094
Deduct Extraordinary item:				
Provision for loss in foreign subsidiary		2,654,980		2,654,980
Net income (deficit) for the period	\$ 510,373	\$ (2,407,082)	\$ 1,008,815	\$ (1,964,886)
Earnings per share:				
Income before extraordinary item	\$.23	\$.11	\$.45	\$.31
Net income (loss) for the period	.23	(1.07)	.45	(.87)